NARUC Audit Team's Reply:
PTG's reasons for not allowing PBD to offer electronic publishing services are artificial.

PTG argues that PBD's business system is "optimized for print publishing, not electronic publishing". However, PBD's new multi-million Information Management System investment was originally justified by its flexibility to accommodate new products, such as EYP. (NARUC Audit Report, Part C, Chapter 6, pages 41, 47, 48)

Second, PTG argues that PBD's sales force is fully occupied in selling printed Yellow Pages ads. However, PTG cannot ignore the fact that PBD possesses the knowledge of its customer contacts. Therefore, PBD has an advantage over other start-up companies even if it were to set up a new sales force, or expands its current sales force.

Third, given the new or expanded sales force, the requirement of a year-round market presence is only a matter of business administration.

Fourth, PTG argues PBD's Information Management System is incapable of handling the demands of electronic publishing. However, the record shows that the IMS was purchased for its ability to accommodate new products, such as EYP. (NARUC Audit Report, Part C, Chapter 6, pages 41, 47, 48) Even so, if PBIS or PTEPS sees that it is worthwhile investing in a new system to handle electronic publishing, it would also be reasonable to assume that a modification of PBD's new multi-million IMS is a worthwhile investment as well.

Finally, PTG alleges that the auditors had assumed "(1)there are problems at PBD and (2)putting electronic publishing into PBD would solve the problems" and that "neither assumption is justified." However, neither the problems nor the solution was the auditors' assumption. The problems and solution were provided by Mr. Gaulding in his presentation to PBD's Board of Directors. (NARUC Audit Report, Part C, Chapter 5, PBD's Strategy In Developing Electronic Yellow Pages, page 33)

PTG's Response (VI.M, page 27): - see NARUC Audit Team Reply to VI.A.

PTG's Response (VI.N, page 27):
PTG contends that the way for PBD to maintain and enhance its competitive position is to continually focus on reinvigorating its printed Yellow Pages business.

NARUC Audit Team's Reply:
The way for PBD to maintain and enhance its competitive position involves EYP. According to Mr. Gaulding, the former President and CEO of PBD, "For PBD to maintain its market leadership position, PBD not only must improve its cost efficiency, but also must explore new opportunities in marketing and electronic information services in order to diversify single product focus." (NARUC Audit Report, Part C, Chapter 5, page 33.) Since PTG changed its corporate strategy in EYP placement, PBD may now be left with no choice but "to reinvigorate" its printed Yellow Page business.

PTG's Response (VI.O, page 28):
PTG contends that its change in strategy was based on many factors.

NARUC Audit Team's Reply:
PTG may have other reasons for changing its strategy, but the primary factors appear to be those that are focused on shareholders' benefits. PTG listed six factors why it changed its strategy in EYP placement. While these factors are disputable: the funding by the ratepayers, EYP's risk and synergies with PBD's core business, and the uncertain effects of other factors, the primary factor still appears to be ensuring that only shareholders benefit from the activities funded by the general body of ratepayers.

PTG's Response (VI.P, page 28):
PTG contends that its accounting procedures are adequate. PTG alleges that the auditors misunderstood the project manager's statement and contends that the $1.5 million represents all the expenses associated with electronic publishing.

NARUC Audit Team's Reply:
The statement of the EYP project manager could not be misunderstood: **accounting and tracking of the EYP expenditure was not done and there is no tracking manual.**

In fact, the EYP project manager admitted further that whatever project costs they did track were primarily payments made to outside vendors for work associated with EYP. No internal personnel costs or man-hours were tracked.

Regarding the relationship of IMS to EYP see NARUC reply under VI.L.

PTG's Response (VI.Q, page 28):
PTG contends that cross-subsidization did not occur.

NARUC Audit Team's Reply:
Cross-subsidization occurred when ratepayers, in essence provided the seed money and assumed risks while the rewards accrued to shareholders. PBD developed EYP with funding from ratepayers. The transfer of EYP to PBIS or PTEPS, for BTL purposes, constitutes cross-subsidization from ratepayers to PTG's shareholders. (NARUC Audit Report, Part C, Chapter 7, page 77)

PTG'S Response (VI.R, page 29): - see NARUC Audit Team Reply to VI.J.

PTG's Response (VI.S, page 29):
PTG alleges that the draft is an advocacy document, not a neutral, fact-based audit.

NARUC Audit Team's Reply:
This audit is consistent with the NARUC's resolution. All findings are supported by documentation.